

## Message Text

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SCI-03 L-02 OMB-01 COA-01 SWF-10 PRS-01 PM-03 DODE-00

MC-02 ACDA-10 DRC-01 /089 R

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SER/H:PKIM (PARA 4-E)

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TO AMEMBASSY QUITO

S E C R E T STATE 197229

LIMDIS

E.O. 11652: GDS

TAGS: EAID, PFOR, EC

SUBJECT: AID POLICY TOWARD ECUADOR

REF: QUITO 3801 AND 4149; STATE 129389

FOR AMBASSADOR AND MISSION DIRECTOR FROM MURPHY/SHLAUDEMANN

1. SUMMARY. FORMAL IG DECISION ON ASSISTANCE ISSUE  
WILL BE COMMUNICATED SEPARATELY. ESSENCE OF THAT  
DECISION, WHICH REFLECTS POSITION OF AID ADMINISTRATOR,  
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IS THAT ECUADOR WILL MOVE TO PAY-AS-YOU-GO BASIS BY  
FY 1976, WITH EXCEPTIONS AS NOTED HEREIN. U.S.

ASSISTANCE WILL CONTINUE TO BE AVAILABLE ON REIMBURSABLE  
BASIS. COST TO U.S. WILL BE LIMITED TO MINIMAL

OPERATING COST NECESSARY TO ASSURE PROPER OVERSIGHT AND MONITORING OF RESIDUAL PROGRAM, WHICH SHOULD BE COMPLETED BY END OF FY 1977. PURPOSE OF THIS MESSAGE IS TO CONVEY BACKGROUND AND RATIONALE, PROVIDE MORE DETAILED CONSIDERATION OF IMPLICATIONS FOR OPERATIONAL PROGRAMS, AND SUGGEST NEXT STEPS.

2. BACKGROUND AND RATIONALE. DECISION TO MOVE ECUADOR PROGRAM TO REIMBURSABLE BASIS BEGINNING IN FY 76 WAS MADE IN WORLDWIDE CONTEXT OF AID POLICY WITH RESPECT TO OTHER COUNTRIES THAT HAVE ATTAINED NEW OIL WEALTH, SUCH AS NIGERIA AND INDONESIA, AS WELL AS COUNTRIES, LIKE KOREA, WHOSE FINANCIAL CAPACITY PUTS THEM IN POSITION TO PAY FOR THEIR DEVELOPMENT ASSISTANCE. WHILE U.S. REMAINS READY TO ASSIST SUCH COUNTRIES IN THEIR DEVELOPMENT, WE CANNOT JUSTIFY PROVIDING SCARCE ASSISTANCE FUNDS ON GRANT OR HIGHLY CONCESSIONAL LOAN BASIS WHEN SUCH ASSISTANCE ONLY HAS EFFECT OF PERMITTING ACCUMULATION OF LARGE FOREIGN EXCHANGE RESERVES THAT ARE NOT USED FOR DEVELOPMENT. IN ORDER TO PRESERVE OUR CREDIBILITY WITH CONGRESS AND OBTAIN ITS SUPPORT FOR DEVELOPMENT ASSISTANCE TO MORE NEEDY LDCs, IT IS ESSENTIAL THAT WE MOVE PROMPTLY TO BEGIN TRANSITION TO REIMBURSABLE ASSISTANCE IN COUNTRIES THAT CAN AFFORD TO PAY. WE RECOGNIZE THAT FINANCIAL AFFLUENCE IS NOT SYNONYMOUS WITH DEVELOPMENT, AND WE ARE THEREFORE PREPARED TO CONTINUE TO COOPERATE IN VARIETY OF WAYS. HOWEVER WE CAN ONLY DO THIS IF COUNTRY CONCERNED UNDERSTANDS AND ACCEPTS IMPLICATIONS OF ITS NEW FINANCIAL SITUATION. WE RECOGNIZE THAT AS A COUNTRY MOVES INTO SITUATION WHERE IT IS PAYING FOR ITS DEVELOPMENT NEEDS, AID AND US MAY NOT BE PREFERRED SOURCE FOR TECHNICAL ASSISTANCE, ALTHOUGH WE EXPECT THAT FOR MANY REQUIREMENTS WE WILL BE ABLE TO PROVIDE HIGHLY COMPETITIVE OFFERS. WE RECOGNIZE THAT ECUADOR MAY EXHIBIT CONSIDERABLE DISAPPOINTMENT AT OUR DECISION. IN ORDER TO MINIMIZE NEGATIVE IMPACT, WE ARE PREPARED TO HAVE YEAR OF TRANSITION

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(FY 1975) WHICH WILL PERMIT GRADUAL REORIENTATION OF ACTIVITIES TO NEW BASIS.

3. IMPLICATIONS FOR OPERATIONS IN ECUADOR. IN TERMS OF ECUADOR PROGRAM, KEY ASPECTS OF SHIFT TO A REIMBURSABLE BASIS ARE AS FOLLOWS:

A. TECHNICAL ASSISTANCE

(1) WE WILL CONTINUE TO OBLIGATE FUNDS FOR ONGOING GRANT PROJECTS IN FY 1975 FOR DISBURSEMENT NOT BEYOND JUNE 30, 1976. THIS IS TO ASSURE ORDERLY TERMINATION OF EXISTING GRANT PROJECTS. DESIRABLY ALL SHOULD BE TERMINATED EARLIER SUBJECT TO ACHIEVEMENT OF INTENDED

RESULTS.

(2) FOR FY 1975, AS A TRANSITION MEASURE, WE WOULD BE PREPARED TO PROVIDE TECHNICAL ASSISTANCE LOANS NOT TO EXCEED A TOTAL OF DOLS THREE MILLION, AND FOR EXTERNAL COSTS ONLY. SUCH LOAN OR LOANS WOULD HAVE A DISBURSEMENT PERIOD OF TWO YEARS, 285H A TERMINAL DISBURSEMENT DATE IN ANY EVENT NOT LATER THAN JUNE 30, 1977. TERMS SHOULD BE FOUR PERCENT AND FIVE PERCENT RATHER THAN TWO PERCENT AND THREE PERCENT. WE ANTICIPATE THAT THESE LOANS WOULD COVER ASSISTANCE IN THE PRIORITY SECTORS OF AGRICULTURE/NUTRITION, EDUCATION AND FAMILY PLANNING/HEALTH.

(3) ECUADOR MAY CONTINUE TO BENEFIT FROM REGIONAL AND INTER-REGIONAL GRANT PROJECTS SUCH AS AIFLD, FAMILY PLANNING, DEIDS, ETC. SPECIAL MENTION IS MADE REGARDING DEIDS PROJECT, WHICH PROP WE ARE PREPARED TO APPROVE. THE PROJECT, WHILE INTERREGIONAL IN CHARACTER, HAS, OF COURSE, SUBSTANTIAL ASPECTS OF DIRECT ASSISTANCE TO ECUADOR'S INTEREST IN DEVELOPING A MULTI-PURPOSE HEALTH DELIVERY SYSTEM FOR ITS RURAL POOR. FOR THIS PROJECT WE ARE WILLING TO PROVIDE SUPPORT, AS ENVISIONED IN THE PROP FOR A FIVE-YEAR PERIOD (SUBJECT OF COURSE TO THE USUAL CAVEATS REGARDING FUND AVAILABILITY AND EVALUATED EFFECTIVENESS OF THE PROGRAM). WE WOULD EXPECT THAT ANY CONTINUING ACTIVITIES FOLLOWING THE FIVE-YEAR PERIOD WOULD BE LARGELY OR TOTALLY FINANCED  
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BY THE GOE FOR ELEMENTS DIRECTLY RELATED TO ECUADOREANS, WHILE THE U.S. WOULD FINANCE OTHER ELEMENTS.

(4) NARCOTICS CONTROL PROGRAMS WILL REMAIN RESPONSIBILITY OF DEPARTMENT OF STATE AND WOULD BE UNAFFECTED EXCEPT FOR ADJUSTMENTS THAT MIGHT BE NECESSARY IN SUPPORT PROVIDED BY USAID.

B. CAPITAL ASSISTANCE. NO FURTHER AID LOANS WILL BE CONSIDERED EXCEPT FOR POSSIBILITY OF FISHERIES LOAN IN DIRECT CONNECTION WITH SETTLEMENT OF THE FISHERIES DISPUTE.

C. PL-480. CONSIDERATION WILL BE GIVEN TO SHIFTING, IF FEASIBLE, TITLE II PROGRAMS TO TITLE I WITH HARDER TERMS AS PROPOSED FOR TECHNICAL ASSISTANCE AND WITH A PHASEOUT BY THE END OF 1976. THIS WOULD BE DONE IN COORDINATION WITH APPROPRIATE VOLUNTARY AGENCIES.

D. WE WILL CONTINUE TO DISBURSE EXISTING LOANS, SUBJECT OF COURSE TO APPLICATION OF PRUDENT MANAGEMENT, INCLUDING POSSIBLE DEOBLIGATIONS IF FUNDS ARE NOT BEING

EMPLOYED EFFECTIVELY AND ON A TIMELY BASIS WITHIN THE PURPOSES OF RESPECTIVE LOANS.

E. WITH REGARD TO HIG RESOURCES AGENCY IS REEXAMINING POLICY. WHEN REEXAMINATION COMPLETED WE WILL ADVISE YOU CONCERNING FUTURE AVAILABILITY FOR ECUADOR AND COUNTRIES IN SIMILAR SITUATIONS.

4. NEXT STEPS. 90 ORDER PERMIT PROMPT INITIATION OF OPERATIONAL ASPECTS OF SHIFT TO REIMBURSABLE BASIS, YOU SHOULD COMMUNICATE OUR NEW POLICY TO

GOE AT HIGH LEVEL AND TRY TO ENSURE ECUADOREAN UNDERSTANDING. IN DISCUSSIONS WITH GOE, SUGGEST YOU DRAW ON FOLLOWING:

A. AS SECRETARY KISSINGER MADE ABUNDANTLY CLEAR AT TLATELOLCO, ATLANTA OASGA AND ELSEWHERE, US DEEPLY COMMITTED TO MEETING THE CHALLENGE OF INTERDEPENDENCE  
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AND HAS ENGAGED ITSELF WITH THE NATIONS OF THE AMERICAS TO DEVELOP FROM OUR MUTUAL DEPENDENCE A PROGRAM FOR EFFECTIVE COOPERATION. TO THAT END, WE HAVE COMMITTED OURSELVES TO MAINTAIN OUR OVERALL LEVELS OF AID TO THE HEMISPHERE. ON A BILATERAL BASIS, THE US HAS ALSO MADE CLEAR ITS DESIRE FOR INCREASINGLY CORDIAL RELATIONS WITH ECUADOR BY A SERIES OF UNILATERAL ACTIONS, I.E. THE PRESIDENTIAL DECISION OF LAST JANUARY TO LIFT THE SUSPENSION OF FOREIGN MILITARY SALES, PRESIDENTIAL AND SECRETARIAL WAIVERS OF THE ASSISTANCE DEDUCTION PROVISIONS OF THE FISHERMEN'S PROTECTIVE ACT. WE HAVE BEEN PLEASED TO NOTE THAT THE GOE RECIPROCATES THIS DESIRE.

B. WE KNOW THAT ECONOMIC DEVELOPMENT OF ECUADOR IS FIRST PRIORITY OBJECTIVE OF RODRIGUEZ LARA ADMINISTRATION, AND WE WISH COOPERATE WITH GOE IN ATTAINMENT THIS OBJECTIVE. AT SAME TIME, US AID PROGRAMS MUST REFLECT CHANGED FINANCIAL REALITIES RESULTING FROM PRESENT OIL SITUATION. WE MUST GIVE SPECIAL ATTENTION TO LEAST DEVELOPED LA COUNTRIES AND TO THOSE MOST AFFECTED BY INCREASED ENERGY COSTS. THIS MEANS NATURE OF OUR ASSISTANCE TO ECUADOR - AND ALSO ON WORLDWIDE BASIS TO OTHER DEVELOPING COUNTRIES WHICH SIGNIFICANT OIL EXPORTERS - MUST CHANGE. WE CANNOT JUSTIFY USE OF SCARCE CONCESSIONAL ASSISTANCE FUNDS FOR COUNTRIES CAPABLE OF PAYING FOR THEIR DEVELOPMENT ASSISTANCE NEEDS, AND WE CANNOT OBTAIN CONGRESSIONAL AND PUBLIC SUPPORT FOR CONTINUED DEVELOPMENT ASSISTANCE, ESPECIALLY CRITICAL FOR THOSE HARDEST HIT BY INCREASED OIL PRICES, UNLESS OUR PROGRAMS TAKE ACCOUNT

OF CHANGED SITUATION. FOR THESE REASONS WE PLAN MODIFY OUR AID PROGRAM IN ECUADOR PER PARA 3 ABOVE.

C. WE ARE PREPARED CONTINUE TO COOPERATE REGARDING ECUADOR'S DEVELOPMENT AS MUCH AS POSSIBLE WITHIN FRAMEWORK OF DECISION OUTLINED PARA 3 ABOVE, AND WE BELIEVE YEAR OF TRANSITION OFFERS EXCELLENT OPPORTUNITY FOR PHASED REORIENTATION OF THAT COOPERATION TO REIMBURSABLE BASIS.

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D. WITH RESPECT TO POSSIBLE LOANS FOR TECHNICAL ASSISTANCE DURING FY 75, OUR REVIEW OF PROGRAM INDICATES ONE LIKELY PROJECT MIGHT BE IN EDUCATION, WHERE WE HAVE LONG HAD SIGNIFICANT COMMITMENT AND WHERE THERE IS WELL DEFINED PROGRAM THAT COULD BE PUT INTO LOAN FORMAT. HOWEVER, WE ARE NOT SEEKING TO DICTATE SPECIFICS AND WOULD BE PREPARED TO CONSIDER EACH ACTIVITY ON BASE BY CASE BASIS.

E. REIMBURSABLE ASSISTANCE CAN HAVE ONE SIGNIFICANT ADVANTAGE FROM GOE STANDPOINT, I.E., AID RESOURCES CAN BE USED TO HELP PROVIDE ASSISTANCE FOR BROAD RANGE OF NEEDS RATHER THAN BEING CONFINED TO PARTICULAR SECTORS OF AID CONCENTRATION.

F. IN ORDER TO MAKE THE TRANSITION IN AS ORDERLY AND PRODUCTIVE MANNER AS POSSIBLE, IT IS IMPORTANT TO MOVE AHEAD RAPIDLY IN DEVELOPING MUTUAL APPROACH TO ITS ACCOMPLISHMENT.

5. WE WISH USAID TO DRAW PRELIMINARY ACTION PLAN ASAP. PLAN SHOULD BE SUBMITTED IN ITS INITIAL FORM FOR AID/W APPROVAL. FOLLOWING AID/W APPROVAL, PLAN WOULD BECOME WORKING DOCUMENTS FOR USE WITH GOE IN DEVELOPING MUTUAL APPROACH REFERRED TO IN 4-F ABOVE.

6. REALIZE THAT FOREGOING DECISION DIFFERS FROM YOUR RECOMMENDATIONS, BUT STATE/AID CONSIDER IT NECESSARY IN LIGHT OF WORLDWIDE AND CONGRESSIONAL CONSIDERATIONS. IT PRESENTS GREAT CHALLENGE IN PRESENTING TO, AND ELICITING CONSTRUCTIVE RESPONSE FROM, GEAM WE HAVE CONFIDENCE IN YOUR ABILITY DO THIS, AND ASSURE YOU OF OWN DESIRE BE HELPFUL AS POSSIBLE THIS REGARD. KISSINGER

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